



**Bharat Shikshan Sanstha's**  
**Shri Chhtrapati Shivaji College, Omerga**  
**Internal Quality Assurance Cell (IQAC)**

Study Material

**B. Com I - Semester II**

**UNIT – V – CONSIGNMENT ACCOUNT**

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**1. INTRODUCTION:**

The consignment is just like transporting goods. Consignment means to send and consigning means sending of goods. The consignment refers to handing over of goods belonging to one person to another person without transferring the ownership. Generally “Consignment means one person or firm sending goods to another person or firm for selling them on behalf of the former. The owner of the goods only transfers possession of the goods, he retains ownership over them. The main objective of the consignment is to facilitate delivery or transport of goods. The person who undertakes to keep and transport goods of others receives a commission. He has to take upon himself the responsibilities and risks associated with the control over goods.

**PARTIES IN CONSIGNMENT**

When one person or firm sends the goods to another is known as consignment. There are two parties i.e sender of the goods and receiver of the goods and they are known as consignor and consignee

**CONSIGNER:**

When a person or firm send the goods is known as consignor. He is the owner of the goods. It is also known as PRINICIPAL

**CONSIGNEE:**

When a person or firm who receiving the goods is known as consignee. The consignor is principal for the consignee, who becomes his agent. So he is also known as Agent. He does not own the goods but just keeps control over them. As the names suggest, the consignor and consignee have a principal-agent relationship between them.

## 2. PROCEDURE OF CONSIGNMENT

The procedure or steps of consignment is as under

### FIRST STEP – AGREEMENT

In the first step the consignor and consignee enter into an agreement of consignment. The consignor and consignee agrees upon terms of their agreement of possession of good, and the commission payable.

### SECOND STEP – POSSESSION

In the second step the consignor hands over possession of goods to the consignee along with a preform invoice. But the ownership is not transfer by the consignor.

### THIRD STEP – TRANSPORT

The consignee undertakes the transport and sale of these goods under his custody. All the expenses are incurred by consignee that will be recover later from consignor.

### THIRD STEP – STATEMENT OF ACCOUNT

The consignee sends the details of the sale in accounting statement to the consignor. It contains details of sale, expenses incurred by consignee and commission payable to consignee. The consignor now pays commission to the consignee for his services at agreed rates.

## 3. DIFFERENCE BETWEEN CONSIGNMENT AND SALE

The consignment and sale is similar but there is difference between

<b>Difference Point</b>	<b>Consignment</b>	<b>Sales</b>
<b>1. Ownership</b>	Ownership of goods remains with the consignor until the consignee sells them to a third party.	Ownership of goods is transferred from the buyer to the seller immediately upon sale.
<b>2. Relationship</b>	The consignor is known as PRINCIPAL and Consignee is an AGENT. So the relationship is Principal-Agent	The buyer and seller relationship is as a Creditor-Debtor.
<b>3. Return of Unsold Goods</b>	The consignee can return all unsold goods to the consignor.	Buyer cannot return goods unless the seller agrees.
<b>4. Expenses</b>	Consignor is responsible for expenses incurred by the consignee as per their agreement	Seller is not responsible for any further expenses.

## **4. ACCOUNTING CONCEPT –TREATMENT**

### **INVOICE- PROFORMA INVOICE**

When sale has taken place it is shown in Invoice. On the other hand when a statement prepared by the consignor of goods showing quantity, quality, and price of the goods is known as Proforma Invoice. This pro-forma invoice is issued by the consignor to consignee. The proforma invoice is regarding the goods before the sale actually takes place.

### **ACCOUNT SALE**

Statement showing the details of goods received, goods sold, expenses incurred, commission charged, remittances made, and due balance is called Account Sale and it is remitted by the consignee to the consignor of goods on a periodic basis.

### **COMMISSION**

There are **three** types of commission payable to consignee on sale of the goods.

#### **I- SIMPLE COMMISSION:**

This is usually a fixed percentage on the total sale, calculated as per mutually agreed terms.

#### **II - OVER-RIDING COMMISSION:**

In case of an extra-ordinary sale of the goods, some specific amount is payable to consignee in the form of an incentive is called overriding commission. Over-riding commission is also calculated on the total sales.

#### **III - DEL-CREDERE COMMISSION:**

According to C & G Merriam Co. "A del-credere commission is paid by the consignor to his agent for taking additional risk of recovery of debts from the consignee on an account of credit sales made by him (agent) on consignor's behalf."

"An agreement by which an agent or factor, in consideration of an additional premium or commission (called a del-credere commission), engages, when he sells goods on credit, to insure, warrant, or guarantee to his principal the solvency of the purchaser, the engagement of the factor being to pay the debt himself if it is not punctually discharged by the buyer when it becomes due."

### **DIRECT EXPENSES**

Expenses, which increases the cost of the goods and are of non-recurring nature and incurred till the goods reach the warehouse of consignee may called direct expenses.

## **INDIRECT EXPENSES**

Warehouse rent, storage charges, advertisement expenses, salaries, etc. comes under the category of the indirect expenses. The distinctions between direct and indirect expenses are important especially at the time of valuation of the unsold closing stock.

## **ADVANCE**

Amount paid in advance by a consignee to consigner as security called as advance.

## **VALUATION OF UNSOLD CONSIGNMENT**

1. Closing Stock should be valued at the cost or the market price whichever is low.
2. This stock will be valued at Proportionate cost price and Proportionate direct expenses. (Proportionate direct expenses means all expenses incurred by the consignor and the expenses of consignee, which are incurred by him till the goods reach the warehouse.)

## **INVOICING GOODS HIGHER THAN COST**

1. Under this method, goods are charged at the cost plus profit (100+Profit) and the proforma invoice i.e. higher price of such goods.
2. To know the actual profit, at the end of an accounting period, consignment account will be credited with excess price so charged.
3. Value of the stock will also be adjusted to the extent of profit element.

## **TYPES OF LOSS OF GOODS**

There are two types of losses in the consignment are as under –

### **Normal Loss**

When there is loss of goods due to evaporation, drying up of goods, etc. it is known as Normal loss. The normal loss is not separately shown in the consignment account, but included in the cost of goods sold and the closing stock by inflating the rate per unit.

### **Abnormal Loss**

When there is loss of goods due to any accidental reason it is known as an abnormal loss.

For Example: 100 machines costing Rs. 500 each are sent on consignment and Rs. 10000 spent on Freight. And 40 machines are damaged beyond repairs. Then the amount of abnormal loss will be

Cost of Machine of loss = 40 machine x Rs. 500 each = 20000

$$\text{Add Freight expenses} = \frac{10000}{100} \times 40 = 4000 \quad + 4000$$

**Abnormal Loss = 24000**

#### 4. ACCOUNTING ENTRIES

The journal entries in the books of consignor and consignee in related to consignment are as under

Transaction	In the Books of Consignor	In the Books of Consignee
<b>When goods are sent to the consignee</b>	Consignment A/c                      Dr To Goods Sent on Consignment A/c	--
<b>Expenses Incurred by Consignor</b>	Consignment A/c                      Dr To Cash/Bank A/c	--
<b>Advance given by consignee</b>	Cash/Bank A/c                      Dr To Consignee's A/c	Consigner A/c                      Dr To Bank/Cash A/c
<b>Expenses Incurred by Consignee</b>	Consignment A/c                      Dr To Consignee's A/c	Consigner A/c                      Dr To Bank/Cash A/c
<b>Sale by Consignee ( Cash Sale )</b>	Consignee's A/c                      Dr To Consignment A/c	Cash A/c                              Dr To Consignor A/c
<b>Sale by Consignee ( Credit Sale )</b>	Consignee's A/c                      Dr To Consignment A/c	Debtors A/c                      Dr To Consignor A/c
<b>Commission to Consignee</b>	Consignment A/c                      Dr To Consignee's A/c	Consigner A/c                      Dr To Commission A/c
<b>Remittance from Consignee</b>	Cash/Bank A/c                      Dr To Consignee's A/c	Consigner A/c                      Dr To Bank/Cash A/c
<b>Entry for Profit on Consignment</b>	Profit & Loss A/c                      Dr To Consignment A/c	Not Applicable
<b>Loss on Consignment</b>	Consignment A/c                      Dr To Profit & Loss A/c	Not Applicable
<b>If, there is an insurance policy in respect of the consigned goods</b>		
<b>Insurance Premium Paid</b>	Consignment A/c                      Dr. To Cash A/c ( Premium Paid by Consignor )	Consignment A/c                      Dr. To Consignor A/c (Premium Paid by Consignee)

Abnormal Loss	Abnormal Loss A/c To Consignment A/c	Dr.
Acceptance of Claim by Insurance co.	Insurance Co. A/c To Abnormal Loss A/c	Dr.
Received Claim	Cash /Bank A/c To Abnormal Loss	Dr.
Balance of Abnormal Loss after Insurance claim received	P & L A/c To Abnormal loss A/c	Dr.
Balance of Goods sent on Consignment Transfer to Trading/Purchase A/c	Consignment A/c To Trading /Purchase A/c	Dr.

### **PRACTICAL PROBLEM -1**

Ram Consigned 1000 Magic Boxes costing Rs. 900 each to Shyam his agent on 1<sup>st</sup> April 2019. Ram incurred expenses like Freight Rs. 7650 and Insurance Rs. 3250.

Shyam received delivery of 950 Magic Boxes. On 30<sup>th</sup> September 2019 showed that 750 Magic Boxes are sold for Rs. 900000. And Shyam incurred carriage Rs. 10500.

Shyam also entitled to get commission of 6% on sales and he also incurred expenses of Rs. 2500 for repairing damaged Magic Boxes remaining in the stock.

Ram claimed with insurance company and admitted his claim of Rs. 35000 by insurance company

**Show Consignment A/c and Shyam A/c in the books of Ram**

### **SOLUTION**

#### **Calculation of Abnormal Loss**

1000 units – received 950 units = Abnormal Loss = 50 Units at Rs. 900 each	45000
Add Proportionate Expenses incurred for 50 units	+ 545
$7650+3250 = 10900$ So $\frac{10900}{1000} \times 50 = 545$	
Total Loss	45545
Insurance Claim Reived from Insurance Company	-35000
<b>Abnormal loss</b>	<b>10545</b>



## PRACTICAL PROBLEM - 2

Soni Consigned 5000 units cost of Rs. 20 per units sent for Rs. 30 per unit to Moni his agent on 1<sup>st</sup> April 2019. Soni paid freight charges of Rs. 3000 and Packing charges of Rs. 2500.

Moni sold 4000 units at Rs. 40 per unit and he paid Rs 2000 as selling expenses.

Moni also entitled to get commission of 5% on sales and in addition 20% on sales price over Rs. 30 he sold.

The Closing Stock is valued at market price and is to be reduced by 10%

**Show Consignment A/c and Trading and P&L A/c in the books of Soni**

**Ledger A/c in the books of Soni**

### 1 – Consignment A/c

Particular	Rs.	Particular	Rs
To Goods sent on Consignment A/C	150000	By Shyam A/c	160000
To Cash A/c (Freight + Packaging )	5500	By Goods Sent on Consignment ( Loading 1/3 of 15000)	50000
To Shyam A/c - Selling Expenses	2000		
Commission (5% on 160000 = 8000 20% on (surplus 4000x10=40000) 8000)	16000		
To stock Reserve (on closing stock 1/3 of 27000 )	9000	By Consignment Stock	27000
		1000x20 = 20000 Less 10% = <u>-2000</u> 18000 Add loading + 9000	
By P& L A/c	54500		
	<b>237000</b>		<b>237000</b>

### Trading, Profit and Loss A/c For the Year Ended

Particular	Rs.	Particular	Rs
To Purchase	200000	By Sales	90000
		By Goods Sent on Consignment	100000
To G/P c/d	26000	By Stock	36000
		Cost 1000x40 = 40000 Less 10% = <u>-4000</u>	
	<b>226000</b>		<b>226000</b>



To Expenses and Commission	3000	By G/P b/d	26000
To Net Profit c/d	77500	By Consignment A/c (profit on consignment)	54500
	<b>80500</b>		<b>80500</b>